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DIRECTORATE OF
INTELLIGENCE

Intelligence Report

The Situation in South Vietnam (Weekly)

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CENTRAL INTELLIGENCE AGENCY
Directorate of Intelligence
(29 May - 4 June 1967)

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ANNEX: Weekly Retail Prices in Saigon (table)
Saigon Free Market Gold and Currency Prices (graph)

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I. POLITICAL SITUATION

Both Premier Ky and Chief of State Thieu have been attempting recently to assess and consolidate support for their presidential candidacies. Ky met with representatives of certain political groups which have already offered their backing in order to lay the groundwork for a campaign organization, and Thieu has designated one of his closest advisers as his contact with leaders of various political factions.

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The provisional assembly on 2 June voted down the Directorate's recommended changes in the electoral laws although it is possible that the votes may prove inconclusive for reasons of constitutional interpretation. Ky's supporters in the assembly, although strongly backing the Directorate's request for a rescheduling of the upper house election, failed to back the Directorate's proposed change in the presidential nominating procedure in an evident attempt to embarrass Chief of State Thieu.

Ky and Thieu Assess and Consolidate

1. Both Premier Ky and Chief of State Thieu have recently been meeting with various backers or potential backers to consolidate support for their respective presidential candidacies. On 29 May Ky hosted a dinner meeting for representatives of several political groups, including the Greater Solidarity Forces, the National Union and Christian

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Democrat parties, and factions of the VNQDD (Nationalist Party) and Hoa Hao--all of whom have already offered him their organizational support. Tran Quoc Buu, president of the Vietnamese Confederation of Labor (CVT), also attended the meeting, but his support for Ky is not yet definite.

2. A working group representing all elements present at the meeting was to have begun on 30 May to draw up an organizational structure for Ky's campaign and for influencing other political groups to join the Ky camp. One of Ky's principal objectives is reportedly a personally sponsored and supported slate of candidates for both houses of the legislature which could ride to victory on his coat tails.

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3. Although Chief of State Thieu has not taken any concrete action to launch his campaign, he has reportedly designated a former Dai Viet party member and one of his closest advisors, Nguyen Van Huong, as his contact with leaders of the various political factions.

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Assembly Reaction to Directorate's Recommended Changes
in Electoral Law

9. On 2 June, the Provisional National Assembly --as the Constituent Assembly is now called--rejected the recommendations made by the Directorate in its letter of 26 May for changes in the presidential election law and for a rescheduling of the upper house election. Debate in the assembly centered not so much on the merits of the proposals as on whether the Directorate was ordering the changes, in accordance with the executive power of veto under the constitution, or was merely expressing its views.

10. In debating the Directorate's request for deletion of a provision requiring that each presidential candidate be sponsored by 30 elected assemblymen or provincial municipal councillors, the assembly divided sharply between supporters of Premier Ky, who advocated retention of the provision, and opponents of Ky whose arguments reflected the views of Chief of State Thieu and the Directorate. The failure of Ky's backers to uphold the Directorate apparently represented a ploy by Ky to hold Thieu clearly responsible for the Directorate's stand and to imply that this stand was a result of Thieu's inability to muster the necessary sponsors. Although pro-Ky deputies failed in their attempt to get a ruling on the Directorate's authority to propose changes, their views prevailed on the substantive issue when the assembly voted, by secret ballot, to retain the existing nominating procedure.

11. Assembly debate on the election dates was particularly heated, culminating in a walkout by most of the progovernment Democratic Alliance Bloc--which favored a rescheduling--when the assembly refused to postpone voting on the issue. As a result, the remaining deputies, who comprised less than half of the assembly, voted to retain the separate dates established by the electoral laws.

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12. There is still a possibility, however, that the assembly's actions may be overruled by constitutional technicalities. If the Directorate's recommendations are deemed to constitute a veto of provisions in the laws, the assembly's voting on the two issues can be held to fall far short of the absolute majority--59--required to override a veto. There is thus some question whether the provision governing the nomination of presidential candidates is in fact still a part of the presidential electoral law. Moreover, some progovernment deputies claim that the question of election dates may be reopened, possibly to consider an alternate proposal that there be two separate election dates, one for the presidency and vice presidency and the other for both houses of the legislature.

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II. REVOLUTIONARY DEVELOPMENT

Fifty-three battalions have been trained and officially committed to the direct support of Revolutionary Development (RD) by the Vietnamese Army. Progress is being made in training Regional Force companies for an RD role, and Mobile Training Teams were recently established to provide instruction to the Popular Forces on their role in RD. The Ministry of Revolutionary Development has authorized the recruitment of 100 Chieu Hoi ralliers for ten-man information teams to work with RD teams.

GVN and USAID representatives have concluded an agreement whereby 62 agricultural technicians from the Republic of China will work with RD teams in selected Ap Doi Moi. US officials in Saigon believe that land reform as a popular issue is overshadowed by the quest for security and the high cost of living. The Ky government is, however, emphasizing the issuance of permanent titles to lands to be distributed by it under existing laws. The Ministry of Education is short more than 6,000 teachers to staff provincial elementary schools.

In the week ending 27 May, 528 persons rallied to the government under the Chieu Hoi program. Thus far in 1967 there have been 15,700 ralliers compared with 8,525 for the same period in 1966.

The Vietnamese Armed Forces in Revolutionary Development

1. US officials in Saigon report that good progress was made by the Vietnamese Armed Forces (RVNAF) in the first quarter of 1967 in retraining its units for the mission of direct support to the RD program.

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2. As of 31 March, the Vietnamese Army (ARVN) had permanently committed 53 of its 152 maneuver battalions (including general reserve battalions) to direct support of RD. This is an increase of two since the end of January; III Corps has increased the number of battalions directly involved in RD from 15 to 17. In addition, the 14 ARVN Mobile Training Teams (MTT) had by 31 March successfully completed the RD training of the 53 battalions as well as of several combat support units.

3. Because of the pressure in I Corps from North Vietnamese and Viet Cong military forces, a third ARVN battalion has been temporarily assigned to the RD area adjacent to the Quang Tri provincial capital. Moreover, an additional four ARVN battalions have been deployed to augment GVN forces in Thua Thien Province, and--although the province already has two battalions in direct support of RD--it is possible that one or more of the new units may operate in indirect support. Of the other provinces in I Corps, Quang Nam has at least one Regional Force (RF) and three ARVN battalions providing direct support to RD. Quang Ngai has at least two battalions, and Quang Tin Province may have as many as three.

4. From 15 October 1966 to 31 March 1967, the Regional and Popular Forces (RF/PF) underwent a command structure reorganization. The separate RF/PF was created at the Joint General Staff, Corps, Division, and Special Zone headquarters, respectively. Province chiefs have been given command of the RF/PF forces whereas previously they had only operational control.

5. The establishment of the new command and staff relationship has forced RVNAF leaders to come to grips with certain RF and PF problems which US advisors had been urging them to deal with for some time. Many of the discrepancies in personnel management, strength accounting, and financial procedures have been brought into the open and reportedly are being corrected. For example, over 7,900 deserters were finally eliminated from the strength totals and payrolls.

6. The 68 Regional Force (RF) RD Mobile Training Teams (MTT) had by 31 March completed the RD training of 67 RF companies. Of these 67, at least nine companies

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and one battalion--approximately four companies--were trained in I Corps, and 25 companies completed their RD training in II Corps.

7. During the period 25 to 31 March, the various corps supervised the training of some 48 RVNAF political warfare teams to support the RD training given PF units. A shortened version of the RD training course, previously given to the ARVN and RF Mobile Training Teams was presented to the four Corps at Corps level and to 44 provincial MTTs--which up to this time had conducted only motivational training programs for the PF under the Motivation/Indoctrination Program (MIP). This two-week training course covers not only the RD program, but also puts heavy emphasis on night operations and small unit tactics for the protection of villages and hamlets. After their training, the five-man provincial MTTs will, in turn, train 214 district teams to conduct the RD training--under a revised military indoctrination/RD program--for PF units.

Revolutionary Development

8. The Minister of RD, General Thang, has authorized the recruitment of 100 ten-man Hoi Chanh (rallier) information teams. Under the present concept of operation, each team will work with three RD teams and will augment the RD teams capabilities to conduct psychological operations against the Viet Cong. As additional tasks, the new information teams will popularize the RD program, establish intelligence nets into enemy held territory, and help train hamlet self-defense forces. Although detailed information about this program is not yet available, presumably--based upon lessons learned from the RD cadres--Hoi Chanh will be utilized near their native villages and hamlets. The tasks assigned to the new information teams may be too sophisticated considering the village/hamlet experiences and background of most Hoi Chanh.

9. This new utilization of Hoi Chanh should not be confused with the government's Armed Propaganda Teams (APT) already in operation. The latter teams are composed of 36 men--almost entirely Hoi Chanh--and are

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under the control of the Ministry of Information and Chieu Hoi (MICH). The APT's mission is propaganda and proselyting enemy forces.

10. In addition to these two uses of Hoi Chanh, Thang previously has authorized the recruitment of five 59-man RD teams composed solely of ralliers. The Special Commission for Refugees (SCR) is also employing 32 Hoi Chanh in mobile refugee teams, and some ralliers are engaging in other tasks, such as serving US forces in I Corps as "Kit Karson" scouts. For those who desire to engage in nongovernmental activities, resettlement hamlets for ralliers and their families have been established where they may farm or pursue other livelihoods.

11. Segments of the Saigon press have recently voiced some resentment against alleged GVN "favoritism" toward Hoi Chanh, who--according to a few papers--are being rewarded for having fought against the GVN while those who have remained loyal must "fend for themselves." This is one of the first indications of resentment toward the "Open Arms" program, although latent hostilities toward the enemy apparently prevented the GVN from establishing a broader National Solidarity program, and have hindered GVN employment of ralliers.

"New Life Development" Activities

Agriculture

12. The problems which had arisen in recruiting agricultural technicians from the Republic of China (GRC) for the Revolutionary Development Program at the Ap Doi Moi ("Real New Life Hamlet") level have apparently been resolved. One obstacle was overcome by an agreement concluded between the GVN's ministries of agriculture and RD, and USAID, whereby USAID will fund the costs for 62 GRC agronomists. USAID and the GRC have settled their differences over the number of Chinese agronomists and their places of assignment, apparently along the lines recommended by USAID.

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13. Responsibility for operating 12 agricultural training centers for highlanders will be transferred from the Special Commission for Montagnards (SCM) to the Ministry of Education. The centers are reportedly operating below standard and are failing to meet their potential student capacity. The causes for the unsatisfactory operation of the training centers have been attributed to a lack of central responsibility. In light of other problems which beset the Ministry of Education--shortage of teachers, lag in school construction, low salaries--the chances of its adequately dealing with the highlander centers are not too promising. While the centers were under the SCM, the highlanders were responsible to a highlander oriented administration, but under the proposed reorganization--in light of traditional highlander-lowlander animosities--the highlanders may be the last to receive the already strained resources of the Ministry of Education.

Land Reform

14. US Mission officials apparently feel that land reform--which in the Vietnamese context may more accurately be referred to as land tenure and agricultural development--may of necessity be a slow moving process. The problems involved in land reform--cadastral survey and issuance of land titles, for example are compounded by the insecurity in the countryside, shifts in the areas of government or Communist control, and the deterioration of the local government administrative structure as a direct result of the wartime chaos. Moreover, since the government's centers of power are in the populated or urban areas, land reform as a popular issue is overshadowed by the quest for security and the high cost of living.

15. In November 1964, the Khanh government issued a decree which authorized the granting of titles to squatters on holdings of 24 acres or less where they had assumed the responsibility for clearing and developing the land. Instructions were issued to provincial and village/hamlet officials concerning the distribution of application forms to squatters, the posting of notices, and the performance of necessary administrative work. Because of the unstable political and

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security situation and possibly to the reluctance of local officials to assist the squatters, by April 1967 only approximately 57,600 persons had applied for an estimated 289,400 acres.

16. The present government has continued the Khanh government's policies, and Premier Ky's present program giving priority to the issuance of permanent titles is focused upon lands occupied by squatters, acquired under Ordinance 57, or from former French holdings, and upon development centers. During the past six months, increased emphasis has been given by the government to the issuance of permanent titles covering lands distributed by it. From 15 October 1966 to 15 April 1967 titles to approximately 420,900 acres were distributed to approximately 83,600 recipients.

17. In March 1967, the government issued in decree form a Ministry of Agriculture circular of December 1965 which prohibits landlords from collecting back rents for any period that land was under enemy control. Landlords are similarly exempted from the payment of back taxes during such a period. In spite of this decree--and an April directive from the Joint General Staff which prohibits Vietnamese military forces from participating in rent collection on the behalf of land owners--the government is still hindered by administrative weaknesses in its inability to enforce landlord/tenant policies.

18. To accentuate the role of the RD teams in land reform, a new month-long training course for 90 land reform cadre assigned to RD teams is to begin on 6 June. This training will be in addition to that given at Vung Tau, which US officials feel has been inadequate. No Ministry of Agriculture (MOA) representative has been stationed at the Vung Tau National RD Training Center; however, a land service chief stationed at Vung Tau has been advising the RD faculty on GVN land reform policies to include in course instruction. Land reform classes have been divided into groups of approximately 40 to 50 workers and an instructor. The RD instructional program for land

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reform is currently under review, and US officials are seeking to have an MOA representative permanently assigned to the teaching staff in order to present the RD cadres with a positive approach to land reform programs.

Education

19. According to the US Mission, South Vietnam is short 6,644 teachers in the provincial elementary school program in 43 of the 44 provinces. Of this figure, 3,423 shortages are caused by the military draft, 273 by retirement; the remaining 2,911 are positions unfilled in classrooms recently constructed under self-help and Ministry of Education auspices.

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III. ECONOMIC SITUATION

Retail prices in Saigon rose by four percent during the week ending 22 May, reaching a higher level than has generally prevailed during the last three months. Currency and gold prices were mixed as the former rose and the latter declined slightly. The US economic stabilization review completed in May indicates that inflation in 1967 will be about double the amount originally estimated. During 1966 industrial output in Vietnam increased by eight percent.

Prices

1. Retail prices in Saigon rose during the week ending 22 May for the second consecutive week as prices for both food and nonfood items increased by three to four percent. Prices rose above the level that has generally prevailed during the last three months, except for the period of the rice crisis in early March when prices soared. The embassy reports that buying for Buddha's birthday holiday on 23 May probably accounted for the increase in the price of pork and other protein foods and that the rice bonus for GVN employees reported last week may also have contributed to the generally higher prices. The market is hypersensitive to increases in GVN expenditures and generally anticipates future inflationary tendencies almost immediately. US officials believe that further price increases are likely, especially for pork. Hog deliveries to Saigon have been ample since February, but the wholesale price recently has risen considerably for reasons not yet apparent. The embassy anticipates that the normal summer drop in deliveries may be greater this year because of premature slaughtering and the high cost of feed relative to the farmers' selling price for hogs.

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2. The prices of most types of rice were unchanged on 22 May after having risen for three weeks, but the price of rice consumed by the working class rose slightly. All vegetable prices used in the USAID weekly index also rose during the week ending 22 May. The price of calico, and probably of other cloth, increased in response to the announcement of higher duties on imported textiles. (A table of weekly retail prices in Saigon is included in the Annex.)

3. Prices for selected US-financed imported commodities rose slightly during the week ending 23 May for the first time in seven weeks. The increase resulted from a higher price for cement for the second week in succession as well as higher prices for fertilizers, wheat flour, and sugar. Prices for condensed milk and chemical products declined slightly, but not enough to offset the increases for other items.

Currency and Gold

4. Currency prices increased slightly during the week ending 22 May compared with the previous week, but the price of gold declined. Following several weeks of declining rates, currency prices have fluctuated during May. The price of gold, however, has declined steadily since 13 March, having risen only once during the week ending 8 May. The reasons for these movements are not clear, although the embassy reports that the over-all declining trend is the result of importers selling off gold in order to finance their operations while commercial bank credit is tight. The price for dollars and MPC (scrip) rose by three piasters on 22 May to 155 piasters per dollar and 111 piasters per dollar, respectively. The price of gold fell by two piasters to 198 piasters per dollar. These prices compare with 13 March prices of 171 piasters per dollar for dollars, 119 piasters for MPC and 225 piasters for gold. (A graph on monthly and weekly currency and gold rates is included in the Annex.)

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Economic Stabilization Review

5. During the last several months the joint US Embassy/USAID economic staff has undertaken a series of stabilization reviews assessing the anti-inflation policies of the GVN and the US, and each review has resulted in a higher estimate of the inflationary gap for 1967. The size of the gap has steadily increased as actual and planned expenditures by both governments have increased for such things as more manpower and higher wages. A brief summary report of the latest review completed in May indicates that there will be an inflationary gap in 1967 of about 26 billion piasters, or about double the amount estimated in January of this year. According to the report, this gap of 26 billion piasters is expected to result in an increase of 40 percent in the money supply with the price level rising by as much as 50 percent. During the first four months of 1967, the money supply rose by seven percent and retail prices in Saigon increased 17 percent. It is the feeling of the embassy staff that a price rise of 50 percent can be safely tolerated this year, but that there will be a continuing threat of even more inflation.

Industrial Production

6. The GVN industrial production index for 1966 shows an increase of eight percent over 1965. This increase compares with a gain of 20 percent in 1965 and 14 percent in 1964. During 1966 the output of all the major industries increased, but the largest gains were registered in the tobacco and foodstuffs industries as shown by the following index numbers (1962 = 100):

	<u>1965</u>	<u>1966</u>	<u>Percentage Increase</u>
All Industry	158	171	8
Foodstuffs	106	115	8
Beverages	182	190	4
Tobacco and Cigarettes	148	171	16
Textiles	163	170	4
Electricity	168	174	4

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7. The increase in the output of the foodstuffs industry was largely due to an increase of 17 percent in the production of refined sugar. Increased output of beverages resulted from an increase of 16 and four percent in the production of soft drinks and beer, respectively. Output of textiles increased by four percent, mainly because of an increase of 14 percent in the production of cotton yarn. The production of cotton fabrics--the most important item in the textile index--declined by ten percent, however.

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TABLE

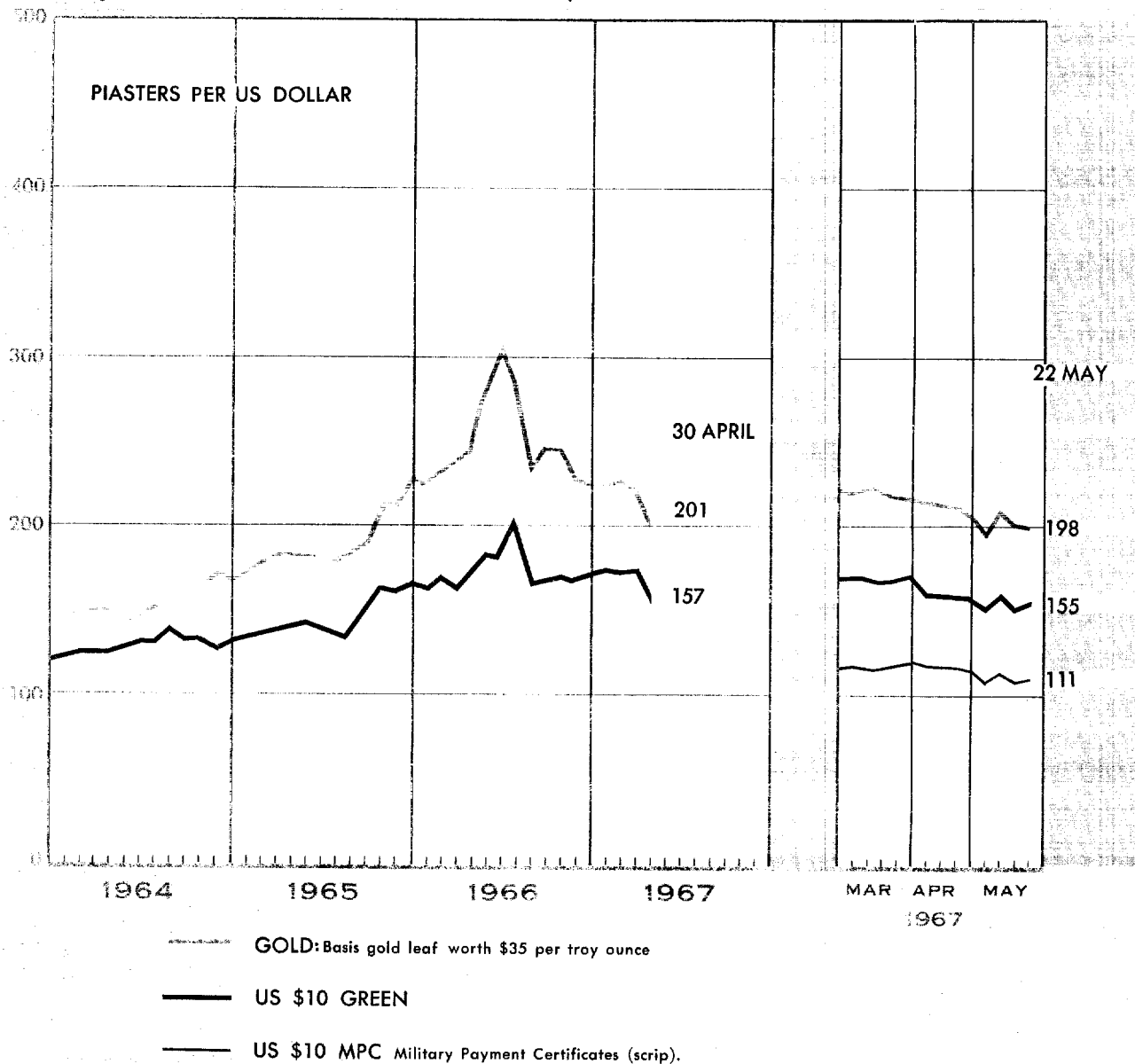
Weekly Retail Prices in Saigon a/

	13 Jun 1966 <u>b/</u>	3 Jan 1967	2 May 1967	8 May 1967	15 May 1967	22 May 1967
Index for All Items	<u>173</u>	<u>225</u>	<u>260</u>	<u>260</u>	<u>266</u>	<u>276</u>
Index for Food Items	<u>190</u>	<u>242</u>	<u>289</u>	<u>289</u>	<u>297</u>	<u>309</u> <u>c/</u>
Of which: (In Piasters)						
Rice-Soc Nau (110 kg.)	1,250	1,700	2,600	2,700	2,700	2,750
Pork Bellies (1 kg.)	90	130	150	130	130	130
Fish-Ca Tre (1 kg.)	130	150	150	150	170	170
Nuoc Mam (jar)	70	90	150	150	150	150
Index for Nonfood Items	<u>140</u>	<u>195</u>	<u>206</u>	<u>207</u>	<u>207</u>	<u>213</u> <u>c/</u>
Of Which: (In Piasters)						
Charcoal (60 Kg.)	460	640	650	660	670	700
Cigarettes (pack)	10	14	14	14	14	14
White Calico (meter)	27	33	31	31	30	33
Electricity (kwh)	4.2	5.2	5.2	5.2	5.2	5.2

- a. Data are from USAID sources. For all indexes 1 January 1965 = 100.
b. Price level just prior to the 18 June devaluation.
c. Preliminary.

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Saigon Free Market Gold and Currency Prices



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